THE MONITORING GROUP

Monitoring Group Summary of 27 February 2013 Roundtable on Public Sector Accounting Standard Setting

28 March 2013. The Monitoring Group (MG) is a group of regulatory and international organizations committed to advancing the public interest in the areas of high quality international standards on audit and assurance and accountant ethics and education. The MG monitors the activities of the Public Interest Oversight Board (PIOB), which oversees due process of certain standard-setting boards operating under the auspices of the International Federation of Accountants (IFAC).[1]

On 27 February 2013, the MG held a roundtable on governance of public sector accounting standard setting, with particular focus on the International Public Sector Accounting Standards Board (IPSASB). The roundtable was moderated by MG Chairman Ethiopis Tafara. This note provides background on the MG's purpose for holding the roundtable and summarizes the roundtable discussion.

Background

Neither the MG nor the PIOB currently have a role with regard to IPSASB governance. At the time of the MG and PIOB's creation, the parties involved agreed that the newly-formed governance framework for international standards related to audit would cover three of the four standard-setting bodies operating under IFAC. The IPSASB is the one IFAC-operated standard setter that remains outside of the MG / PIOB governance model. IPSASB establishes international financial reporting standards intended for use by public sector entities.

IPSASB and IFAC have been considering for some time the need to improve the legitimacy of the IPSASB's standards by placing the board under an external oversight framework. One of the various arrangements they have considered is the existing MG / PIOB governance regime.

The MG included a question on IPSASB governance in a 2012 public consultation document.[2] As a follow-up to the public consultation, the

[1] The PIOB oversees due process in the setting of standards by, and nominations of, the International Auditing and Assurance Standards Board (IAASB), the International Accounting Education Standards Board (IAESB), and the International Ethics Standards Board for Accountants (IESBA).

[2] *See* http://www.iosco.org/monitoring_group/?section=governance_review.

MG organized a 27 February 2013 roundtable with the aim of gaining improved insight about IPSASB's diverse group of stakeholders and their governance needs. The MG's objective was to be better informed in order to responsibly and decisively assess the merits of any role for itself or the PIOB in IPSASB governance.

The roundtable topics included identification of the stakeholders in public sector financial reporting standards; the potential conflicts of interests presented in setting public sector standards; and the characteristics of a governance framework best suited for the identified stakeholders and their needs. Roundtable participants included representatives of APG Asset Management, European Commission, IFAC, IFRS Foundation, International Monetary Fund (IMF), International Organisation of Supreme Audit Institutions (INTOSAI), IPSASB, Organisation for Economic Co-operation and Development (OECD), PwC and World Bank. Representatives of all MG member organizations and PIOB members attended the roundtable. The MG invited various national governmental bodies to attend, including those that are responsible for the preparation of public sector financial statements; none invited were available.

Summary of Roundtable Discussion

Stakeholders and Conflicts of Interests. The roundtable discussion focused first on identification of the key stakeholders in public sector accounting standards and the potential conflicts of interests amongst stakeholders that governance arrangements might seek to address. The recent sovereign debt crisis and attention on government finances provided a focused context for discussion on stakeholder interests in transparency in public sector financial reporting; the crisis was repeatedly mentioned during the debate in support of participants' views on stakeholder types and their needs.

The roundtable opened with a description of stakeholders as identified by IPSASB. Following public consultation, IPSASB concluded that the various stakeholders in public sector accounting standards can be categorized as recipients of government services (*e.g.*, citizens) and resource providers (*e.g.*, investors in and creditors to governmental entities), with particular emphasis on those stakeholders with information needs but without the power to independently access that information. Specific stakeholders identified over the course of the roundtable discussion include taxpayers / citizens; parliamentarians / legislatures; governmental entities; creditors and investors in sovereign debt and securities; national standard-setting bodies; and national offices or international organizations that conduct statistical analyses.

Participants noted critical conflicts of interests among stakeholders. Several mentioned that the interests of preparers of government accounts often run contrary to the interest of account users; in the short-term, obfuscation and lack of transparency may be advantageous to the reporting entity. Some noted that governmental interests have historically presented one of leading challenges to increased transparency in reporting standards.

From the perspective of investors and creditors, standardized, transparent reporting conceptually offers improved information utilized in capital allocation decision. A particular area for improvement would be accrual accounting that recognizes all obligations of the reporting entity. However, participants acknowledged contradictory incentives in some situations; current creditors to governments may benefit from reduced transparency, as it may enable an exit if current debt can be repaid through issuance or new debt or securities to new creditors or investors.

Looking beyond the needs of stakeholders in government entities, investors observe that the implications of transparent reporting by sovereigns transcend to capital-raising and borrowings by the private sector, as well. In earlier years, credit rating and investment analyses focused largely on the industry sector in which a private sector business operates or to which it is exposed. Today, such analyses increasingly take into account the country in which the business operates and implications that the stability of government finances may have—directly or indirectly—on the private sector entity's future earnings or cash flows.

Participants discussed the degree of compatibility between investors' interests as compared to those of other stakeholders; specifically, they debated the question of whether other stakeholders' needs would be met if the accounting standards provided for investors' information needs. While some saw compatibility of needs, it was noted that consumers of public services may have incremental informational needs. Additionally, while not all governmental entities raise capital through public markets, the need for information about those entities' finances nonetheless exists.

Certain issues may be more acutely relevant in one jurisdiction or level of government than another, creating "local" needs that are difficult to address at an international level. Further, some users require simplified information while others demand extensive detail to suit their particular needs.

In addition to differences in stakeholder types and needs, fundamental differences in the nature of a government entity as compared to a corporate entity present further challenges to accounting standard setting. The "life" of a sovereign does not end, short of law or conquest; this reality is in stark contrast to the financial reporting notion of a business entity as a going concern. Governmental entities can raise taxes or levies; such revenue-generating activities are not available to corporates. The concepts of assets and liabilities differ in some cases. An asset's value to a public entity may be measured in a manner different from that relevant to a corporate asset. Finally, sovereignty plays a significant role with respect to obligations, as compared to the predominant role of contracts in financial reporting by corporates.

Notwithstanding the challenges to public sector accounting standard setting in satisfaction of the numerous and, at times, conflicting information needs, the group of roundtable participants generally expressed strong support for the objective of transparent financial information provided by public sector entities.

Governance Arrangements. Having discussed the variety of stakeholders and conflicts of interests relevant to public sector accounting standard setting, the roundtable discussion then turned to features of governance arrangements supporting a standard setter.

Participants observed the irony that, despite general opinion that an improved baseline of international public sector accounting standards would provide a public good, the only international organization seeking to set such standards is a private sector, professional body for the accountancy profession. To achieve legitimacy, the general view was that a different set of stakeholders would need to be involved, both on the standard-setting board as well as in any new governance arrangements.

Participants views' varied on the role of governments in any newly formed governance body. Some warned that governments should not be involved; their involvement would diminish investors' and creditors' confidence due to the conflicting interests described above with respect to transparency versus obfuscation. Contrarily, others indicated that the only way governance arrangements could achieve political legitimacy is if they involved governments and included the public sector expertise that would make standard setting acceptable to governments.

Many roundtable participants advocated a role for the IMF and World Bank, as lenders to governments, in any governance arrangements. Citing the keen importance of transparency and standard-setting credibility in the eyes of investors, many supported a role for IOSCO. Various participants supported involvement of other international bodies such as the OECD, INTOSAI or the FSB. Others suggested a role for citizens, perhaps represented by non-governmental organizations.

Some supported the incorporation of IPSASB into one of two existing governance arrangements for standard-international standard-setting boards—either the Monitoring Board / IFRS Foundation model supporting the International Accounting Standards Board (IASB) or the MG / PIOB model supporting audit-related standard-setting boards. Arguments in support of these bodies taking a role include expediency in achieving governance and oversight of IPSASB; their organizational structures and due process oversight mechanisms are already in place. Further, some questioned the existence of any feasible alternative; citing the long-identified need for IPSASB governance and the lack of progress to date, these participants urged action on a near-term solution, allowing for the possibility of evolution to a longer-term solution over time. Some argued that, rather than seeking a perfect solution that most likely does not exist, progress should be made in the form of a good and immediate solution. The PIOB members present stated their readiness to assume IPSASB oversight responsibilities.

Participants opposed to governance by one of the existing bodies expressed that oversight arrangements for a standard setter dealing with public sector reporting calls for a different combination of authorities and credentials than currently provided by either the Monitoring Board / IFRS Foundation model or by the MG and PIOB. In both cases, these governance arrangements were designed and are composed of experts in the area of corporate reporting. In the case of the IFRS Foundation, its Trustees have already considered and concluded that, at this time, it will not add public sector accounting standards to its organizational remit.[3] Finally, an immediate, compromise situation to advance governance in the immediate carries the risk of inadvertently becoming the long-term solution. Instead, some suggested that the current momentum surrounding this question should be seized by relevant international bodies and directed to the determination of appropriate, sustainable governance arrangements.

Between planning the roundtable and its occurrence, a statement by the G20 finance ministers and governors tasked the IMF and World Bank with updating the G20 on, among other things,

[3] As noted during the roundtable, an existing memorandum of understanding between the IASB and IPSASB provides for collaboration and cooperation on common interests.

transparency and comparability of public sector reporting.[4] Some roundtable participants observed that the G20, through its communiqué, designated the IMF and World Bank as the relevant bodies to address public sector reporting, likely taking into account their better standing (possibly in combination with others) to take up any consideration of IPSASB governance arrangements. The IMF and World Bank participants at the roundtable indicated their willingness to consider governance of public sector accounting standards as part of their response to the G20. Representatives of other international bodies in attendance, including IOSCO and the OECD, expressed interest in considering contributions to the IMF and World Bank project.

Conclusion

In discussions following the roundtable, the MG shared its strong appreciation for the insights offered by the roundtable participants. The MG concluded that its composition, as well as that of the PIOB, were not best suited for IPSASB governance. Further, the MG observed that an attempt to modify its or the PIOB's composition to be better equipped for IPSASB oversight could risk the realization of the objectives for which the MG and PIOB were originally created. Having reached these determinations, the MG has concluded its consideration of IPSASB oversight.

The MG understands that the role of accounting standards may feature in the IMF and World Bank's efforts in response to this G20 request, to be addressed together with a broader group of interested parties. The MG welcomes the momentum among international bodies to take forward the question of governance arrangements suitable for a public sector accounting standard setter.

[4] For full communiqué, *see* http://www.g20.org/news/20130216/781212902.html. The relevant text, found at paragraph 10 under *Government Borrowing and Public Debt Sustainability*, states: "In pursuit of our goal of strengthening the public sector balance sheet, work is needed to better assess risks to public debt sustainability. This includes, inter alia, taking into account country-specific circumstances, looking at transparency and comparability of public sector reporting, and monitoring the impact of financial sector vulnerabilities on public debt. We look forward to an update from the IMF and the World Bank on these issues according to their respective mandates."